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5 March 1982

DDI #1898-82

MEMORANDUM FOR THE RECORD

SUBJECT: SIG Meeting
Versailles Summit
4 March 1982, 1100-1200, Rm 305, EOB
CIA Attendees: NIC
EURA/WE

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The purpose of the meeting was to provide a read-out on the 27-28 February Preparatory Meeting in Paris, and to lay the groundwork for Summit preparations within the USG. Assistant Secretary Hormats chaired the meeting and provided the bulk of the comments summarized below.

I. PROCEDURE

A. The US delegation obtained more staff time and more political discussion. The latter now is planned for all meals. The political discussions will be informal (stressed).

B. Papers -- Reagan and other leaders decided at Ottawa that they wanted to deformalize and debureaucratize the Summit. As a result, there will be only one formal paper assigned this year, on technological progress and its impact on growth and employment. This will be drafted by the French Personal Representative, Jacques Attali. Another formal paper arises from Ottawa -- the High-Level Monitoring Group will present a paper on energy. All other papers will be "personal," prepared by the Sherpas; they will be only for discussion and will not include proposed communique language. The deadline for papers is 16 April (see next item).

C. Prep Meetings -- The next meeting is 24-25 April, at which there will be a broad, informal discussion of a rough draft of the final communique, which Attali will draft. This will be followed by possibly the final meeting before the Summit, in early May. (Early May was at US insistence; the French proposed late May). The May meeting will focus on ironing out communique language differences and any other problems.

II. PHILOSOPHY

We must pull our ideas together early and present our suggestions in a positive way. We want to try to make an impact as the papers are being written; only later, if our ideas are not receiving adequate attention, will we present them formally. As usual, we appear to be ahead of other delegations in planning and preparation.

III. TONE

The atmosphere at the prep meeting was somber. The West Europeans appear very pessimistic about their economies and about the impact of unemployment on social and political stability. Privately at least, they recognize that their problems are largely

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their own doing, but they also blame US interest rates and exchange rate volatility. Indeed, resentment of high US interest rates permeates all the Summit discussions (trade, energy, North-South) and not just economic policy topics. The US will have to be able to respond to West European complaints. ☐

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IV. AGENDA

A. Growth and Economic Policy -- The continental Europeans will strive to concentrate discussion on this topic. They are truly bitter about US economic policy and truly afraid that our (and thus there) problems are going to worsen. The UK was conspicuous in its silence on the issue of high US interest rates, as were Canada and Japan. ☐

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B. Trade -- The US side stressed the importance of improving or safeguarding the system rather than pushing our own specific goals. We also stressed that the Summit should achieve some clearcut objectives beyond a simple statement condemning protectionism. The continental Europeans (with the exception of the FRG), led by the EC, were extremely cautious about US proposals, particularly concerning any positive reference to the GATT Ministerial in November, saying that it would appear that the US wanted to rig the agenda of the Ministerial. ☐

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C. East-West -- Again, US proposals appeared to be misinterpreted. US reps tried to depoliticize the discussion by concentrating on debt, subsidies, and countertrade. (At the same time, however, our intentions were fairly obvious as we said we did not know exactly what our proposals would be -- on Poland and COCOM, for example -- as they would depend on Polish/Soviet events.) Despite the low-key presentation, the others responded very negatively, stating that the US was trying to renew the cold war, reject Yalta, etc. ☐

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D. Technology -- The issue here appears to have changed almost completely from what was originally envisioned. Attali at first proposed a paper on technology, unemployment, and growth, with concentration on how governments can direct or manage technological progress. All other delegations, however, led by the US, were extremely critical of this approach, and Attali apparently agreed to concentrate on the private sector. ☐

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E. Energy -- The US side raised the issue of security in a quiet, noncontroversial way. The reference to Soviet gas was obvious, however, and there was very little response. ☐

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F. North-South -- With the exception of the French, there appears to be little interest in this subject. Even the Canadians

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appear to have lost interest, although all agree that there will have to be positive communique language on the topic. The French appeared tied up with Global Negotiations and the Energy Affiliate -- the two key issues last year but now somewhat dated and of only limited relevance (depending on what happens in New York). The US side mentioned the Caribbean Basin initiative and it received fairly strong support. It clearly put the US stance in a positive light and showed the US position as more than rhetoric. ☐ 25X1

V. WRAP-UP

Hormats: The prep meeting to some extent was an opportunity for country delegations to let off steam, but the problems are real. All appear to be in full agreement that the importance and gravity of this Summit will determine the direction of discussions. Because the problems are so serious, acrimony over less important details (such as US interest rates) may be less than it would appear. Nevertheless, the US must get its ideas in early and clearly and be able to respond to criticism. Moreover, whatever we do we will be blasted about bad US economic policies. This is unavoidable. ☐ 25X1

Sprinkel: We don't have to simply sit back and take it. He said he warned the Europeans about our patience; we dislike some of their policies, and if forced, we can play hardball too. He added that the US is interested in coordinating policies to the extent possible, and he promised that the US would provide a paper on this subject. In addition, the group talked briefly about investment. The US will try to do something on this in an extremely informal way, as too hard a push on this subject would probably increase European negativism. ☐ 25X1

Nau: One major concern is the link between the 4-6 June Economic Summit and the 8-9 June NATO Summit. This will be particularly true in the political discussions at Versailles but will spill over into all subjects. To some extent, the Economic Summit will set the tone for the following summit. Attali was quoted as saying: "You cannot expect to create a security consensus with Europe if you are causing a recession in Europe at the same time!" ☐ 25X1

Hormats: This kind of statement is indicative of Western Europe's pessimism. We tried to buck them up at the prep meeting, and one duty at the Summit will be to boost their confidence, in themselves as well as in our policies. By taking the offensive (in a positive way), the US can accomplish this, while at the same time deflecting criticism of high US interest rates. ☐ 25X1

☐ A theme thus far not touched on is the potential impact of falling oil prices. When asked if we could provide some analysis, ☐ pointed out that we were in the process of finishing a paper started in December. (The paper, however, considers the impact on the oil producers; Hormats is most interested in the

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macroeconomic and policy impacts on the consumers, particularly the Summit participants. EURA has been discussing the best way of attacking this problem and will have something for Hormats.) ☐

Hormats: In addition to analysis of falling oil prices, Hormats asked CIA to provide: (1) numbers on East bloc debt to the West over the years and the subsidy element of this debt; and (2) some brief analysis of recent trends in countertrade. (☐ of EURA is attempting to obtain a better reading from Henry Nau or from Marshall Casse on exactly what they want and when.) ☐ 25X1

Hormats added that even with falling oil prices and the positive effects they would engender, the Summit participants must still stress that the West remains vulnerable, security must be increased (stocks and surge capability, for example), and some reference must be made to the need to continue conservation and diversification programs and progress. In making these points, however, the US is handicapped by the fact that it has little credibility in European eyes as an energy supplier, in terms of either uranium or coal. He quoted French Foreign Trade Minister Jobert as saying: "The USSR can build a 3,000-mile pipeline, and the US can't dredge 60 miles of the Mississippi." ☐ 25X1

Treasury: A specific guidelines paper for the Summit would help paper-preparers focus their work. What does the US want to accomplish -- in what priority order? Where is the US weak, where will we be criticized, and how can we respond? If the papers are better focused, priorities established, and US problems laid out rather than painted over, our support should be much more useful for the President. ☐ 25X1

In response, Hormats agreed to prepare a short objectives paper on priority goals for the President to achieve at Versailles, differentiating between (a) what he should try to achieve as a maximum, and (b) what would still be considered a reasonable success. ☐ 25X1

Treasury: Another factor in the Summit is that regardless of the Summit agenda, observers (including the press), will define the Summit and its success in terms of three issues: (1) Poland, (2) the strength of the Alliance, and (3) Japanese trade practices. In addition to the specific Summit agenda, these points must be addressed fairly specifically in preparatory papers. ☐ 25X1

SUBJECT: SIG Meeting 4 March on the Versailles Summit (DDI #1898-82)

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